

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1820-02
Bill No.: HB 973
Subject: Taxation and Revenue - Sales and Use; Revenue Dept.
Type: Original
Date: April 19, 2011

Bill Summary: Would create a “Made in the USA” sales tax holiday.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
General Revenue	(More than \$100,000)	(More than \$100,000)	(More than \$100,000)
Total Estimated Net Effect on General Revenue Fund	(More than \$100,000)	(More than \$100,000)	(More than \$100,000)

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Conservation Commission	(More than \$100,000)	(More than \$100,000)	(More than \$100,000)
Parks, and Soil and Water	(More than \$100,000)	(More than \$100,000)	(More than \$100,000)
School District Trust	(More than \$100,000)	(More than \$100,000)	(More than \$100,000)
Total Estimated Net Effect on <u>Other</u> State Funds	(More than \$100,000)	(More than \$100,000)	(More than \$100,000)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on FTE	0	0	0

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Local Government	(Unknown)	(Unknown)	(Unknown)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State (SOS)** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the Secretary of State's Office for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Office of Administration, Division of Budget and Planning (BAP)** assume this proposal would not result in additional costs or savings to their organization.

This proposal would create a seven day sales tax holiday on products carrying a "Made In USA" designation. BAP does not have data on what proportion of retail sales currently qualifies; however, 7 days is approximately 1.92% of a fiscal year. Sales taxes for the General Revenue Fund would be reduced up to this percentage, or \$34.4 million based on FY 2010 receipts. Similarly, School District Trust Fund revenues would be reduced by up to \$13.5 million, Conservation revenues by up to \$1.8 million, and Parks/Soils revenues by up to \$1.4 million.

Local governments could opt in at their discretion.

ASSUMPTION (continued)

Officials from the **Department of Conservation** (MDC) assume that this proposal would have an unknown negative fiscal impact to their organization due to the loss of Conservation Sales Tax revenues.

Officials from the **Department of Economic Development** (DED) assume this proposal would have no fiscal impact on their organization; however, there could be a negative fiscal impact to Total State Revenue since there would be a loss of state sales tax. DED deferred to the Department of Revenue for an estimate of the impact.

Officials from the **Department of Natural Resources** (DNR) assume this proposal would authorize a state and local sales and use tax exemption for sales of any "Made in USA" product during a seven-day period beginning at 12:01 a.m. on July first and ending at midnight on July seventh, unless July first is a Sunday. Exempting state sales tax would result in a negative effect on total state revenue and a loss to the Parks and Soils Sales Tax Funds.

Officials from the **Department of Elementary and Secondary Education** assume this proposal would have a negative impact on the revenue stream of state and local governments; however, DESE has no means to calculate such impact.

Officials from **St. Louis County** assume the loss to their organization would not be great, but stated that they could not define their sales tax revenue to this level of detail.

Officials from the **City of Kansas City** assume this proposal would have no fiscal impact on their organization.

Officials from the **City of Raytown** stated that there was no fiscal impact to their organization from this proposal that they could easily identify.

Officials from the **Kansas City Area Transportation Authority** stated that they could not provide an estimate of the cost to their organization from this proposal but assumed there would be a negative impact.

ASSUMPTION (continued)

Officials from the **Department of Revenue** (DOR) assume this proposal would create a sales tax holiday which would have an unknown negative impact on Total State Revenue.

Beginning January 1, 2012 and ending December 31, 2013, retail sales of any "Made in the USA" product would be exempted from state sales tax for a seven day period beginning at 12:01 a.m. on July first and ending at midnight on July seventh, unless July first is a Sunday. If July first is a Sunday, the seven-day period would begin on July second and end on July eighth. Motor vehicle sales would not be included in the exemption.

Any political subdivision could allow the sales tax holiday established in this section to apply to its local sales taxes.

DOR and ITSD-DOR would need to make programming changes to various tax systems.

Administrative impact

DOR officials assume that Sales Tax would require programming to establish an item tax reported on a separate sales tax holiday line on taxpayers' returns for political subdivisions that do not participate in the holiday. DOR officials also assumed they would need to notify approximately 1,500 cities, counties and districts how to participate in the holiday. The DOR estimate of mailing and printing costs follows.

*	Letters	\$0.025 x 1500
*	Envelopes	\$0.040 x 1500
*	Postage	\$0.440 x 1500

Each year, DOR would send approximately 20,000 businesses a holiday notification informing them how to collect and report holiday related sales tax and how to report the exemption on their return.

*	Letters	\$0.025 x 20,000
*	Envelopes	\$0.040 x 20,000
*	Postage	\$0.044 x 20,000

ASSUMPTION (continued)

This Sales Tax Holiday would impact two filing periods; July Monthly Returns and July-September Quarterly returns. Because businesses must differentiate sales tax collected in political subdivisions that do not participate, the proposal could potentially eliminate a substantial volume of the July - One and Two Location Voucher returns and the Quarterly July-September - One and Two Location Voucher Returns. Those returns could be processed without human intervention; therefore the proposal would result in additional hand keying by department staff and would add to the complexity of filing for impacted businesses.

DOR officials submitted a cost estimate to implement the proposal of \$9,048 for FY 2012, \$11,130 for FY 2013, and \$11,407 for FY 2014.

Oversight notes that this proposal would provide two sales tax holidays; one in 2012 and one in 2013, although the holidays would impact taxable sales in FY 2012, FY 2013, and FY 2014. Oversight also assumes that DOR would notify local governments and retailers of the sales tax holiday in advance, and in regularly scheduled communications. Accordingly, Oversight assumes that any additional cost to DOR related to this proposal would be minimal and could be absorbed with existing resources. If unanticipated additional costs are incurred, or if multiple proposals are implemented which increase the DOR workload, resources could be requested through the budget process.

IT impact

DOR officials provided an estimate of the IT impact to implement this proposal of \$26,712 based on 1,008 hours of programming to make changes to DOR systems.

Oversight assumes ITSD-DOR is provided with core funding to handle a certain amount of activity each year. Oversight assumes ITSD-DOR could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, ITSD-DOR could request funding through the appropriation process.

Oversight assumes this proposal would reduce sales tax revenues but is not able to determine the extent to which additional retail sales would be exempted by this proposal. Accordingly, Oversight will indicate revenue reduction greater than \$100,000 for the state General Revenue Fund and for those other state funds which receive sales tax revenues. Oversight will not indicate a fiscal impact to local governments since any impact to local government revenues would result from the local government decision to adopt the sales tax holiday.

<u>FISCAL IMPACT - State Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
GENERAL REVENUE FUND			
<u>Revenue reduction</u> - sales tax exemptions	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>
CONSERVATION COMMISSION FUND			
<u>Revenue reduction</u> - sales tax exemptions	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>
PARKS, AND SOIL AND WATER FUNDS			
<u>Revenue reduction</u> - sales tax exemptions	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>
ESTIMATED NET EFFECT ON PARKS, AND SOIL AND WATER FUNDS	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>
SCHOOL DISTRICT TRUST FUND			
<u>Revenue reduction</u> - sales tax exemptions	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>

FISCAL IMPACT - Local Government

FY 2012
(10 Mo.)

FY 2013

FY 2014

\$0

\$0

\$0

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

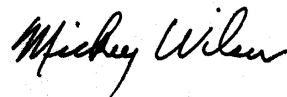
FISCAL DESCRIPTION

This proposal would create a "Made in the USA" sales tax holiday.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State
Office of Administration
 Division of Budget and Planning
Department of Elementary and Secondary Education
Department of Natural Resources
Department of Revenue
St. Louis County
City of Kansas City
City of Raytown
Kansas City Area Transportation Authority



Mickey Wilson, CPA
Director
April 19, 2011